

PS 8221.02 CUSTOMER GOODWILL PROGRAM



Change Notice

DIRECTIVE AFFECTED: 8221.02
CHANGE NOTICE NUMBER: 8221.02
DATE: 6/25/98

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1. PURPOSE AND SCOPE. To update the Program Statement on the Customer Goodwill Program.
 2. SUMMARY OF CHANGES. This Change Notice revises the Program Statement to include the following changes:
 - a. Customer Goodwill and related terms are more clearly defined.
 - b. Responsibilities and procedures for monitoring and recording QuickShip Program discounts are clearly defined and delegated to the appropriate parties.
 - c. Additional categories of Customer Goodwill have been included in the policy.
 - d. All Customer Goodwill requests are submitted to the designated Customer Goodwill administrator who will log the request and forward to the appropriate Senior Program Manager.
 - e. The appropriate Senior Program Manager is responsible for reviewing and approving all Customer Goodwill requests.
 - f. Credit voucher procedures for issuance and redemption are clearly defined and explained with specific delegations of responsibility and detailed accounting and system instructions for processing voucher transactions.
 3. ACTION. File this Change Notice in front of the Program Statement on the Customer Goodwill Program.

/s/
Kathleen Hawk Sawyer
Director



Program Statement

OPI: FPI
NUMBER: 8221.02
DATE: 6/25/98
SUBJECT: Customer Goodwill
Program

1. PURPOSE AND SCOPE. To establish policy and procedures that will promote goodwill with Federal Prison Industries (FPI) customers. It is the goal of FPI to provide a level of service and customer satisfaction so that customers will be eager to do business with FPI.

On occasion, FPI's performance may not meet a customer's expectations. Regardless of the reason, it is FPI's philosophy to ?make it right? by the customer. Often, this goodwill initiative will incur costs for FPI. The purpose of this policy is to encourage an unequivocal commitment to rectifying the situation to the customer's complete satisfaction and to identify funding policies and procedures for these efforts.

The goodwill program is designed to meet the needs of FPI customers with flexible terms and options to satisfy every customer.

2. PROGRAM OBJECTIVES. The expected results of this program are:

a. FPI customers will be satisfied when doing business with FPI.

b. Goodwill expenses will be properly classified and recorded by FPI locations in accordance with generally accepted accounting principles.

3. DIRECTIVES AFFECTED

a. Directive Rescinded

PS 8221.01 Customer Goodwill Program (4/22/96)

b. Directives Referenced

PS 8000.01	UNICOR Corporate Policies and Procedures (5/13/81)
PS 8200.04	UNICOR Marketing and Sales Manual (6/11/97)
PS 8247.01	FPI Liquidated Damages in Customer Contracts (9/4/96)
PS 8270.02	Customer Services Center Manual - UNICOR (2/18/98)
TRM 8007.01	SYMIX Accounts Receivable (9/1/97)
TRM 8016.01	SYMIX Customer Order Entry (9/1/97)

4. STANDARDS REFERENCED. None.

5. CUSTOMER GOODWILL. Customer goodwill is defined as any activity or expenditure that is designed to either create or increase customer satisfaction in doing business with FPI. These expenditures may be funded at the local level, by the Program and/or Sales Branch, or by the Central Office Goodwill budget.

6. GOODWILL EXPENSES FUNDED AT THE LOCAL LEVEL. Types of customer goodwill expenditures funded by the factory or Program Branch are listed below. The Associate Warden (AW)/ Superintendent of Industries (SOI) or Senior Program Manager may authorize these types of expenditures.

a. QuickShip Program Late Delivery Discounts. The QuickShip Program compensates customers for late shipment of goods ordered from the QuickShip Catalog. The customer shall be granted a 10% discount on the total sales price of the order for shipments that are delivered later than 30 days. The AW/SOI at the shipping location is responsible for monitoring and discounting invoices to customers for orders that are delivered late. When an order is divided among more than one factory, the factory that delivers late shall bear the cost of the discount for the entire order.

The Customer Service Center (CSC) must **not** enter customer orders into the Order Entry module of the Management Control System (MCS) at a discounted sales amount, even when it is known that the QuickShip item will be delivered late when the order is taken. It is necessary to record the order at the full sales amount in order to recognize the amount of the discount as a cost to the Corporation of not being able to meet its commitment to deliver on time. Entering orders net of this discount prevents the financial system from capturing the costs of these discounts.

b. Defective Goods. Factory locations shall promptly repair or replace any of their products shipped to the customer that did not meet the customer's expectations. The factory shall absorb those expenses resulting from factory error, including corresponding freight costs. In addition, the AW/SOI may compensate the customer for any inconvenience that contributed to the customer's dissatisfaction and charge the associated expense to the factory.

c. Freight Damage. Although the customer is responsible for settling freight damage claims with the carrier when goods are shipped FOB Origin, this is an excellent opportunity for FPI to create goodwill by quickly responding to the customer's needs. Therefore, the factory or Program Branch shall immediately repair or replace damaged items for the customer and negotiate directly with the carrier to recover the cost of the damaged items.

d. Escape-Proof Guarantee (Product Warranty). FPI's Escape-Proof Guarantee reads as follows:

We take great pride in teaching inmates good work ethics and marketable job skills in order to produce high quality goods and services for our customers. We are committed to your complete and continual satisfaction. If, at any time, an item we have provided does not entirely meet your expectations, we will cheerfully and promptly repair or replace it, entirely at our expense.

Expenses incurred resulting from the Escape-Proof Guarantee may be borne by Central Office, the responsible field location, or Program Branch, depending upon the circumstances. The responsible factory or Program Branch shall bear the cost of repair or replacement of defective goods if the damage was due to defects in manufacture and occurred during the normal life span of the product.

7. CENTRAL OFFICE GOODWILL FUND. FPI sets aside funding for customer goodwill expenditures in the annual Operating Plan. The Senior Program Managers are responsible for approving all customer goodwill expenditures related to their programs from this budget. Generally, customer goodwill expenditures must provide the customer with something more than what was normally expected when the product was ordered in order to qualify for funding from this budget. In addition, the customer must be aware that he or she is receiving more than what was expected or that FPI is obligated to provide. Types of customer goodwill expenditures funded by the Central Office budget are listed below.

a. Escape-Proof Guarantee (Product Warranty). Expenses incurred resulting from the Escape-Proof Guarantee may be funded by Central Office when the repair or replacement is a result of defects occurring after the normal life span of the product, or the expenditure is the result of a customer's subjective dissatisfaction with the product.

b. Customer Error. Expenses incurred as a result of customer error may be charged to the Central Office Goodwill budget. These expenses may include replacing a product ordered in error by the customer, replacing an unacceptable product that resulted from faulty specifications furnished by the customer, shipping charges resulting from a customer error, etc.

c. Customer Satisfaction. Expenses incurred that result from going beyond the customer's expectations may be charged to the Central Office Goodwill budget.

d. Unrecoverable Freight Damage. When freight damage is reported by a customer, the factory or Program Branch shall immediately repair or replace damaged items for the customer and negotiate directly with the carrier to recover the cost of the damaged items. After all attempts have been made to collect for the damage from the carrier with no results, the associated expenses may be charged to the Central Office Goodwill budget.

e. Other. Many staff, particularly Sales Representatives, are on occasion in a unique position to promote goodwill with FPI customers. The Central Office Goodwill budget may be used to provide funds for various products or repair of existing products as requested by individual staff as agents of FPI in creating and enriching FPI's relationship with the customer.

8. CENTRAL OFFICE GOODWILL FUNDING REQUESTS. The AW(I&E)/SOI, Branch Manager, or individual staff person shall submit all requests for funding of goodwill expenditures (from the Central Office Customer Goodwill budget) to the Customer Goodwill program administrator. The administrative person shall log the request, assign it a number and suspense date, and then forward it to the appropriate Senior Program Manager for approval.

The Senior Program Manager shall review the request and notify the requestor of approval or denial, forwarding a copy of the response back to the administrator. The administrator shall forward a copy of all approvals to the Financial Management Branch (FMB). The accountant responsible for the Central Office general ledger in FMB shall maintain supporting documentation insuring that the appropriate Senior Program Manager has approved all expenses charged to the Central Office Goodwill budget.

9. METHODS OF COMPENSATION. There are a variety of methods available for compensating FPI customers to promote customer goodwill. Any of these methods may be used for customer goodwill expenditures, whether funded by the factory, Program Branch, or Central Office Goodwill budget.

a. Credit Voucher Program. The Credit Voucher Program was established in order to maintain goodwill with customers through the issuance of credit vouchers to be applied to future purchases with FPI. Credit vouchers may also be used to compensate for liquidated damages in accordance with the policy and procedures established by the Material Management Branch in the Program Statement on Liquidated Damages in Customer Contracts. Procedures for requesting and accounting for Credit Vouchers are outlined in Section 10 below.

b. Discount for Late Delivery of Quick-Ship Orders. FPI guarantees that all items listed in the QuickShip Catalog will be delivered to the customer in 30 days, or the total sales price of the order is discounted by 10%. As noted above, the AW/SOI at the shipping location is responsible for monitoring and discounting invoices for late deliveries. When an order is divided among more than one factory, the factory that delivers late shall bear the cost of the discount for the entire order. If more than one factory is late, the discount shall be prorated among those factories that delivered late. The discount shall be recorded to Financial Account Segment (FAS) 5120, Returns and Allowances, Government Sales.

If the discount involves a credit card order, the FMB Accounts Receivable Section located in FPI Lexington shall ensure that only 90% of the total sales price of the order is collected for any late delivery of QuickShip items. The Accounts Receivable Section shall transfer the discounted amount back to the factory upon collection. The amount of the discount for credit card orders shall be recorded to FAS 5125, Returns and Allowances, Government Sales (Credit Card).

c. FPI Products or Services. Customer goodwill activities may take the form of compensation in FPI products or services. Products may be given to customers in compensation of inconveniences associated with defective goods, to encourage customers to purchase goods from FPI, customer errors in ordering, etc.

If the activity meets the criteria for Central Office funding outlined in Section 7, the related costs shall be transferred to Central Office via the Inter-Industry Transfer module. The

appropriate Senior Program Manager must approve all customer goodwill related transfers before the charges can be accepted.

10. CREDIT VOUCHER. The Corporate Financial Administrator in FMB shall administer the Credit Voucher Program and shall be responsible for maintaining accountability for all credit vouchers. The FPI Controller shall be the issuing official and authorizing signature for all credit vouchers.

11. REQUEST FOR CREDIT VOUCHER ISSUANCE. Requests for issuance of credit vouchers may be made by the AW/SOI of the requesting location, Program Managers, salespersons, Customer Service staff, or other branch managers within FPI. Requests shall be made by memorandum to the Controller and shall include the following information:

- C Customer agency, including contact person
- C Valid customer address
- C Requested amount
- C Request to be funded by one of the following: Central Office Goodwill Budget, program, or factory (Note: If funded by the Goodwill Budget or the program, request must contain the Senior Program Manager's approval.)
- C Reason for the request

After the FPI Controller signs the voucher, the Corporate Financial Administrator shall forward the original to the customer and maintain a copy on file.

12. ACCOUNTABILITY FOR CREDIT VOUCHERS. The Corporate Financial Administrator in FMB is responsible for procuring, issuing and controlling credit vouchers, and shall ensure that:

- C all credit vouchers are controlled by a sequential serial number pre-printed on the voucher itself;
- C all credit vouchers are accounted for, including unissued, outstanding, and voided vouchers;
- C a log of all credit vouchers is maintained containing the serial number, date issued, requesting official, agency to whom issued, amount issued, and the reason issued;
- C a copy of all credit vouchers issued is maintained in support of that log; and,
- C unissued credit vouchers are maintained in a secure location.

13. REDEMPTION OF CREDIT VOUCHERS. Customers may redeem credit vouchers on any order with FPI, including QuickShip Catalog orders. The following criteria shall govern the use of the credit voucher and shall be noted on the back of the voucher:

- C This credit voucher may be used on any future order with FPI.
- C The original credit voucher must be included with the purchase order and/or the serial number must be referenced when ordering by phone, fax or Internet; followed by mailing the original credit voucher to the Lexington Customer Service Center.
- C Residual amounts will not be refunded for credit vouchers applied in excess of the purchase order.
- C Credit vouchers have no cash value.
- C The invoice for the order will be reduced by the amount of the credit voucher.
- C Credit vouchers have no expiration date.

a. Customer Service Center. Customers may redeem credit vouchers by submitting the original credit voucher with any order placed with FPI. The CSC shall accept any original credit voucher the customer submits. If the credit voucher submitted is not an original, the CSC shall notify the customer that the voucher is invalid and inquire if the customer still desires to place the order. The CSC shall include any credit voucher serial number and amount on an order transmitted to a factory. The CSC shall forward all original credit vouchers to the Corporate Financial Administrator in FMB.

b. The factory shall assume that the credit voucher data on the order is correct and grant credit on the customer's invoice. If a factory receives an order directly from the customer redeeming a credit voucher, that factory shall accept the original credit voucher, apply the voucher amount to the customer order, and forward the original voucher to the Corporate Financial Administrator in FMB.

c. The Corporate Financial Administrator, upon receiving the credit voucher, shall mark it as redeemed and maintain the voucher in a numerical file.

14. FINANCIAL ACCOUNTING FOR CREDIT VOUCHERS. The value of outstanding credit vouchers are a liability to the Corporation and must be recorded as such.

a. Issuance. When a credit voucher is issued, the Corporate Financial Administrator shall record it as a liability and immediately recognize the expense. The accounting entry at Central Office shall be:

6797 Goodwill Expense, Customer Satisfaction
2221 Credit Customer

To establish the liability and record the expense to Goodwill for credit vouchers issued.

If the credit voucher is issued as a settlement to a customer for liquidated damages, the corresponding expense shall be transferred to the field site account. The resulting journal entries at Central Office shall be:

6983 Other Expense, Special Clearing
2221 Credit Customer

To establish the liability and record the expense to Other Expense for credit vouchers issued relative to liquidated damages.

3440 Washington Control - Transfer Billings
6983 Other Expense, Special Clearing

To charge the field account for credit vouchers issued in settlement of liquidated damages.

Upon receiving the transfer of expenses related to the credit voucher for liquidated damages, Business Office staff at the factory shall record the transfer in the Accounts Payable module of MCS as a manual payment by debiting FAS 5120, Returns and Allowances - Government Sales, and crediting FAS 3440, Washington Control - Transfer Billings. To clear any open receivable resulting from the liquidated damages, Business Office staff shall follow standard procedures for adding an open credit and applying it against the appropriate invoice. Information detailing the liquidated damages shall be recorded in the order text.

b. Redemption - Factory. Upon receiving a credit voucher, Business Office staff shall immediately update the Order Entry module in MCS by performing the following steps:

C (O) Order Entry
C (F) Find order to which the voucher applies

- C (U) Update the order by entering the voucher value as a negative amount in Miscellaneous charges
- C (T) Add test to the Miscellaneous Charge by recording the voucher serial number that is redeemed

After shipment and when the order is invoiced, the Business Office staff shall perform the following steps:

- C (O) Order Entry
- C (O) Outputs
- C (F) Order Invoicing
- C (U) Update as needed
- C (3) Print and post (posts to Accounts Receivable distribution)

The system will apply the entire amount of the voucher to the first invoice generated against the order.

Prior to posting the invoices in the Accounts Receivable module, Business Office staff shall update the Miscellaneous Charge on the customer invoice through the Manual Distribution. The Manual Distribution shall be changed to FAS 2221, Credit customer, using the following procedures:

- C (2) Accounts Receivable
- C (I) Invoices, Debit and Credit Memos
- C (F) Find the customer number
- C (N) Use the ?next? key until the correct invoice is displayed
- C (M) Manual G/L Distribution
- C (N) Use the ?next? key until the proper sequence number is displayed
- C (U) Update and enter FAS 2221
- C (I) Invoice Posting

The distribution journal will reflect the correct accounting entries and the A/R Open Item file will reflect the correct amount due from the customer as a result of updating and posting the invoice in A/R. The effect on the general ledger will be as follows:

1310	Accounts Receivable, Government Billings
2221	Credit Customer
5110	Sales - Other Government Agencies

To record the sale and establish the corresponding receivable net of a credit voucher.

Immediately upon completing the invoicing, Business Office staff shall transfer the redemption of the credit voucher to Central Office using the Inter-Industry Transfer (IIT) module and impacting the following general ledger accounts:

3440	Washington Control - Transfer Billings
2221	Credit Customer

To transfer the redemption of a credit voucher to the Central Office.

c. Redemption - Central Office. Upon receiving the original credit voucher and corresponding IIT from a factory, the Corporate Financial Administrator shall mark the voucher as redeemed and effect the following general ledger accounts on the IIT:

2221	Credit Customer
3440	Washington Control - Transfer Billings

To liquidate credit voucher redeemed by a customer.

The Corporate Financial Administrator shall reconcile the open credit vouchers to the Credit Customer account (FAS 2221) at least monthly.

d. Allowance for Non-Redemption of Credit Vouchers. The Corporate Financial Administrator shall use the Allowance for Credit to Customer account (FAS 2222) to adjust the credit voucher liability for the inevitability of non-redeemed credit vouchers. This will ensure that the liability stated on the general ledger accurately reflects the liability for credit vouchers that will be redeemed in the future.

The allowance account shall be adjusted quarterly based upon a percentage of issued credit vouchers. This account shall not reflect credit vouchers that have been outstanding for more than five years. The liability for those credit vouchers shall be written off directly. The accounting entry for establishing an allowance account for non-redemption of credit vouchers is:

2222	Allowance for Credit to Customer
6797	Goodwill Expense - Customer Satisfaction

To record adjustment to the allowance for credit vouchers expected to be written off.

15. ASSISTANCE. Questions related to requests for funding of goodwill activities should be directed to the appropriate Senior Program Manager. Questions regarding the issuance or redemption of credit vouchers should be directed to the Financial Management Branch.

/s/

Kathleen Hawk Sawyer
Director